

Chairman:
William R. Gillis
Commissioner, Washington
Utilities Commission
Chandler Plaza Building
P.O. Box 47250
Olympia, WA 98504-7250



Rural Task Force

Members:

Robert Schoonmaker
GVNW Consulting, Inc.
Colorado Springs, Colorado

Carol Ann Bischoff
CompTel
Washington, DC

David R. Conn
McLeod USA, Inc.
Cedar Rapids, Iowa

Gene DeJordy
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Bellevue, Washington

Billy Jack Gregg
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Evelyn Jerdon
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Anchorage, Alaska

David Sharp
Innovative Communication
Corp.
St. Thomas, Virgin Islands

Stephen Ward
ME Public Advocate Office
Augusta, Maine

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November 3, 2000

Magalie Roman Salas, Secretary
Federal Communications Commission
445 12th Street, SW TW-A325
Washington, D.C. 20554

Subject: Rural Task Force *ex parte* in CC Docket No. 96-45

Dear Ms. Salas:

On November 3, 2000 the Rural Task Force sent to the Federal-State Joint Board on Universal Service estimates of the impacts to fund size associated with implementation of the RTF Recommendation as submitted in the above-named docket September 29, 2000. Please find attached an original and three copies of the documents. Members of the Rural Task Force have not yet seen the results, nor did we oversee the calculations; but we believe John Ricker and NECA are in the best position to provide reasonable and objective estimates of the type requested by the Joint Board. We note that the calculations submitted by John Ricker are responsive to questions asked by the Joint Board staff, but we should be clear that the calculations do not include a quantified impact of establishing a new High Cost Fund III. We are indebted to John and NECA for their dedication, expertise and rapid response.

Sincerely,

William R. Gillis
Chair, Rural Task Force

The Rural Task Force is an independent advisory panel appointed by the Federal-State Joint Board on Universal Service to provide guidance to the Federal Communications Commission and the Federal-State Joint Board on Universal Service.

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November 3, 2000

Commissioner Susan Ness, FCC Joint Board Chair
Commissioner Laska Schoenfelder, State Joint Board Chair
Commissioner Harold Furchtgott-Roth
Martha Hogerty, Public Counsel
Commissioner Bob Rowe
Chairman G. Nannette Thompson
Commissioner Gloria Tristani
Chairman Patrick H. Wood III

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Dear Colleagues:

Please find enclosed a price-out of the Rural Task Force recommendations on high cost funding. This material was requested from NECA's John Ricker and is provided to the extent that data is available to make such projections.

All of the data used to develop the numbers were included in NECA's annual USF submission on September 29, 2000 or in the case of LTS and LSS (in the 5yr priceout) filed by USAC with the Commission yesterday. So everything that is available in the public domain. Tom Wilson has transmitted the same to all members of the Joint Board staff earlier this morning. Obviously, members of the Rural Task Force have not yet seen the results, nor did we oversee the calculations; but we believe John Ricker and NECA are in the best position to provide reasonable and objective estimates of the type requested by the Joint Board. We are indebted to John and NECA for their dedication, expertise and rapid response. We note that the calculations submitted by John Ricker are responsive to questions asked by the Joint Board staff, but we should be clear that the calculations do not include a quantified impact of establishing a new High Cost Fund III.

Mr. Ricker has informed me that he will be in San Diego from next Thursday November 9, 2000 through the following Wednesday, November 15, 2000, should any questions arise from the materials provided. I am certain these numbers will be very helpful to the Joint Board in considering the RTF Recommendation.

Sincerely,

William R. Gillis
Chair, Rural Task Force

Enclosure

QUANTIFICATION OF THE RURAL TASK FORCE RECOMMENDATION ON CHANGES TO THE MECHANISM FOR DETERMINING SUPPORT FOR RURAL CARRIERS

NECA has been requested by several parties, including the Rural Task Force, to quantify the recommended changes in the high cost support mechanism filed by the RTF with the Federal/State Joint Board on Universal Service on September 29, 2000. Additionally, members of the Joint Board staff have expressed a desire to have the following impacts quantified:

- Re-basing of the high cost fund for calendar year 2000
- Determine the Rural Growth Factor
- Determine the cap on rural carrier high cost funding for the five-year period the plan is recommended to be in effect
- Determine whether the cap will be reached, and, if not, what the likely size of the fund will be
- Determine the amount of funding that will be required for the investment "safety net" and the "safety valve" mechanism associated with acquisition of exchanges
- Determine the funding required by competitive carriers designated as eligible telecommunications carriers in rural serving areas
- Determine the size of Long Term Support and Local Switching Support for each of the five years the plan is to be in effect

The initial step in quantifying the proposed changes required the identification of study areas certified as rural carriers for the period in question. Based on the FCC Public Notice released on August 1, 2000, several study areas that for calendar year 2000 had been classified as non-rural, certified that they qualified as rural for 2001. Additionally the Public Notice identified one carrier who had crossed the line count threshold and would now be considered as non-rural. The net result of this change added both lines and support requirement dollars to the 2000 baseline amounts being re-initialized.

Based on latest view data submitted to the FCC for calendar year 2000 support, the amount of support available under existing rules for carriers classified as rural for calendar year 2000 is \$778.4 Million. Using the methodology recommended by the RTF, (i.e., removal of the indexed cap and corporate operations expense limitation), the rebased support requirement for 2000 for these carriers is **\$921.4 Million**.

These carriers collectively had 19,381,916 USF loops in 1998 (the data year on which the 2000 support amounts are based). For 1999, these carriers reported 20,208,071 USF loops. Thus, the rural loop growth component of the Rural Growth Factor (RGF) recommended by the RTF is **4.263%**. The percent change in Gross Domestic Product-Chain Price Index (GDP-CPI) used in calculating Long Term Support growth was **1.492%**. Consistent with the RTF recommendation, this growth rate was used as the cost

growth component of the RGF. Together, the loop and cost growth components produce an RGF for 2001 support of **5.755%**.

Under the Task Force proposal, the RGF is used not only to determine the indexed funding cap for the following year, but is used to adjust the factors in the corporate operations expense limitation formula for that year as well. Based on an RGF of 5.755% and the data supplied by the carriers in the annual USF submission, **42 carriers continue to have a limitation placed on the amount of corporate operations expenses** that can be assigned to the loop cost calculation for 2001. Using the RTF revised methodology for calculating the limitation on corporate operations expenses and a national average cost per loop of \$240.00 in conjunction with the calendar year 1999 data on which support for 2001 is based, produces an **uncapped 2001 funding requirement of \$997.9 million** for the rural carrier population. Application of the RGF to the rebased 2000 support amounts produces an **indexed cap level for calendar year 2001 of \$974.9 million**. A funding requirement that exceeds the cap for 2001 by \$23 million necessitates imputing a national average cost per loop of \$243.22 in order to reduce the funding requirement to meet the capped funding limitation.

Attachment 1 contains study area level comparisons of support projections carriers under the existing rules for 2001 and the support amounts produced for calendar year 2001 under the RTF recommendation. Additionally this attachment compares the loop cost calculation for each carrier under each set of rules (differences being attributable to the level of corporate operations expenses permitted under each methodology). Finally, the report indicates which carriers have satisfied the RTF proposed investment growth criteria (14%) and are thus eligible for "Safety Net" funding equal to 50% of the difference between their capped and uncapped funding requirement.

Based on the data and growth rates associated with the 1998 and 1999 calendar year data for the carriers certified as rural for 2001, and using the projected 2001 support as a starting point, **Attachment 2** contains estimates of support requirements for the entire five-year period for the existing rural carrier population, including projected funding shortfalls. The projection of an amount that might be required for the "Safety Valve" mechanism associated with acquisition of exchanges is estimated to be 5 percent of the capped funding for the year in question in that no data currently exists to either establish a baseline projection or an estimate of future years' activity. Data is not available to estimate the potential participation of competitive local exchange carriers in the rural serving areas. Likewise, no data exists relative to which disaggregation methodology the incumbent rural carriers will likely select based on the RTF recommendation.

RURAL HIGH COST SUPPORT ESTIMATES BASED ON RTF PROPOSAL

	HIGH COST LOOP	LONG TERM SUPPORT	LOCAL SWITCHING SUPPORT	SAFETY NET	SAFETY VALVE	RTF RECOMMENDED UNCAPPED FUND*	FUNDING SHORTFALL	PERCENT
2001	\$ 974,866,579.99	\$ 485,520,000.00	\$ 390,209,000.00	\$ 229,579.51	\$ -	\$ 997,930,480.94	\$ (23,063,900.95)	-2.31%
2002	\$ 1,030,970,151.67	\$ 492,802,800.00	\$ 394,111,090.00	\$ 479,499.76	\$ 51,548,507.58	\$ 1,086,347,121.55	\$ (55,376,969.88)	-5.10%
2003	\$ 1,090,302,483.90	\$ 500,194,842.00	\$ 398,052,200.90	\$ 729,420.02	\$ 54,515,124.19	\$ 1,182,597,476.52	\$ (92,294,992.62)	-7.80%
2004	\$ 1,153,049,391.85	\$ 507,697,764.63	\$ 402,032,722.91	\$ 979,340.27	\$ 57,652,469.59	\$ 1,287,375,612.94	\$ (134,326,221.10)	-10.43%
2005	\$ 1,219,407,384.35	\$ 515,313,231.10	\$ 406,053,050.14	\$ 1,229,260.53	\$ 60,970,369.22	\$ 1,401,437,092.25	\$ (182,029,707.90)	-12.99%

Notes:

- 1 High Cost Loop support based on capped funding for each year grown by the Rural Growth Factor for RTF proposal and industry loop growth for Current Rules scenario
 - 2 Long Term Support for 2001 based on USAC High Cost Low Income Committee Resolution on 1Q2001 funding requirement.
Succeeding years assume a change in GDP-CPI Chain Index of 1.5%
 - 3 Local Switching Support for 2001 based on USAC High Cost Low Income Committee Resolution on 1Q2001 funding requirement.
Succeeding years assume an annual growth of 1%
 - 4 Safety Net based on 42 Study areas whose current TPIS per loop exceeds the prior year amount by 14%
 - 5 Safety Valve assumes no support in year 1 while baseline amount is being developed
Succeeding years estimate based on maximum 5% of indexed cap
 - 6 Uncapped Funding Requirement and shortfall based on comparison of actual change in uncapped expense adjustment of rural carriers 1998 to 1999 of 8.86 percent
- * RTF recommended uncapped fund includes revision to corporate operations expense limitation
** Current Rules uncapped fund includes no limitation on either fund size or corporate operations expenses

HIGH COST FUND UNDER CURRENT RULES WITH SAME GROWTH ASSUMPTIONS AS RTF PROPOSAL

	CURRENT CAPPED HIGH COST LOOP	LONG TERM SUPPORT	LOCAL SWITCHING SUPPORT	SAFETY NET	SAFETY VALVE	CURRENT RULES UNCAPPED FUND**	FUNDING SHORTFALL	PERCENT
2001	\$ 829,336,390.00	\$ 485,520,000.00	\$ 390,209,000.00	0	0	\$ 1,003,774,382.00	\$ (174,437,992.00)	-17.38%
2002	\$ 854,216,481.70	\$ 492,802,800.00	\$ 394,111,090.00	0	0	\$ 1,092,708,792.25	\$ (238,492,310.55)	-21.83%
2003	\$ 879,842,976.15	\$ 500,194,842.00	\$ 398,052,200.90	0	0	\$ 1,189,522,791.24	\$ (309,679,815.09)	-26.03%
2004	\$ 906,238,265.44	\$ 507,697,764.63	\$ 402,032,722.91	0	0	\$ 1,294,914,510.54	\$ (388,676,245.11)	-30.02%
2005	\$ 933,425,413.40	\$ 515,313,231.10	\$ 406,053,050.14	0	0	\$ 1,409,643,936.18	\$ (476,218,522.78)	-33.78%

PRELIMINARY

-ATTACHMENT 1-

STATE	STUDY AREA ID	STUDY AREA NAME	T Y E	RURAL HIGH COST LOOP SUPPORT										SAFETY NET ELIGIBLE		
				2001			2001			2001			2001			
				COST PER LOOP CURRENT RULES	IMPUTED NACP.	EXPENSE ADJUSTMENT CURRENT RULES CAPPED FUNDING	COST PER LOOP RTF PROPOSED	EXPENSE ADJUSTMENT RTF PROPOSED	RTF PROPOSED	EXPENSE ADJUSTMENT RTF PROPOSED	ANNUAL DIFFERENCE CURRENT vs RTF	DIFF PER LOOP PER MO	NET			
WYOMING	511595 UTC OF THE WEST-WY	C	7,508	\$ 501.18	\$ 259.21	\$ 1,075,476.14	\$ 501.19	\$ 1,204,950.41	\$ 1,183,252.67	\$ 107,776.53	\$ 1.20	net				
WYOMING	512251 RANGE TEL COOP - WY	C	18,418	\$ 652.15	\$ 259.21	\$ 4,723,992.55	\$ 652.80	\$ 5,050,235.04	\$ 4,997,007.94	\$ 273,315.39	\$ 1.24					
WYOMING	512269 CHUGWATER TEL CO	C	296	\$ 482.98	\$ 259.21	\$ 38,359.83	\$ 482.98	\$ 43,462.25	\$ 42,606.83	\$ 4,247.00	\$ 1.20					
WYOMING	512290 ALL WEST COMM - WY	C	396	\$ 371.10	\$ 259.21	\$ 18,792.39	\$ 371.10	\$ 24,917.27	\$ 23,772.85	\$ 4,980.46	\$ 1.05					
WYOMING	512291 DUBOIS TEL EXCHANGE	C	2,142	\$ 1,030.14	\$ 259.21	\$ 1,156,602.94	\$ 1,030.14	\$ 1,193,526.03	\$ 1,187,335.76	\$ 30,732.82	\$ 1.20					
WYOMING	512295 SILVER STAR TEL-WY	C	2,585	\$ 724.30	\$ 259.21	\$ 802,859.70	\$ 724.30	\$ 847,418.32	\$ 839,947.80	\$ 37,068.10	\$ 1.20					
WYOMING	512296 TRI COUNTY TEL ASSN	C	6,643	\$ 1,033.78	\$ 259.21	\$ 3,605,119.41	\$ 1,033.77	\$ 3,719,612.09	\$ 3,700,414.15	\$ 95,297.74	\$ 1.20					
WYOMING	512297 UNION TELEPHONE CO	C	6,982	\$ 561.81	\$ 259.21	\$ 1,317,618.78	\$ 594.71	\$ 1,610,267.41	\$ 1,590,089.78	\$ 272,471.00	\$ 3.25					
WYOMING	512299 CENTURYTEL OF WY.	C	4,839	\$ 391.50	\$ 259.21	\$ 295,101.70	\$ 391.50	\$ 378,523.08	\$ 364,538.61	\$ 69,436.91	\$ 1.20					
			WYOMING	49,806		\$ 13,033,620.44		\$ 14,072,911.91	\$ 13,828,966.39	\$ 895,346.95	\$ 1.50					
			RURAL INDUSTRY TOTAL	20,208,071		\$ 829,336,390.09		\$ 997,930,480.94	\$ 974,866,579.99	\$ 145,530,189.00	\$ 0.60					